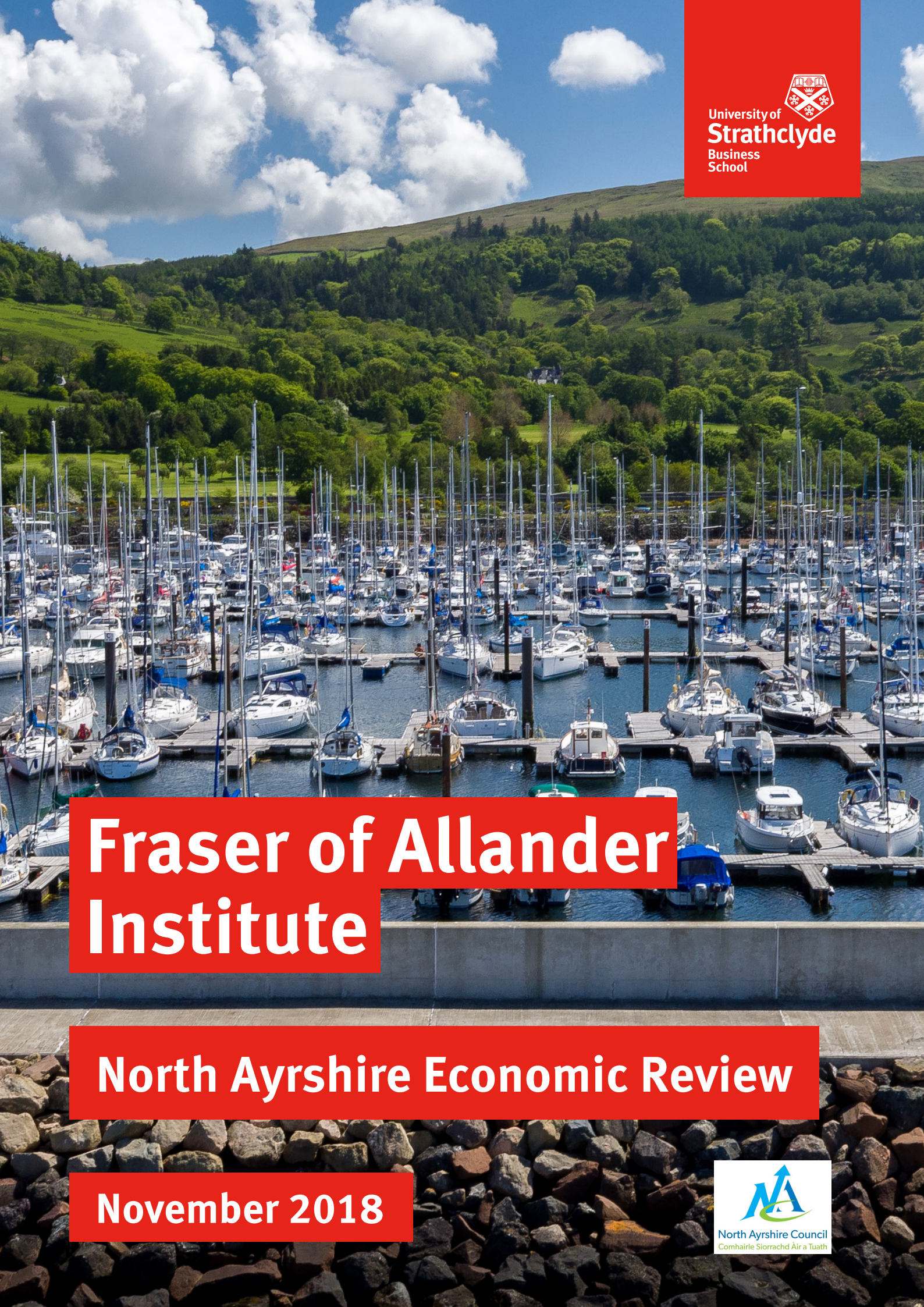




Fraser of Allander Institute

North Ayrshire Economic Review

November 2018



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Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The report was commissioned in June 2018 by North Ayrshire Council.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to informing and encouraging public debate through the provision of the highest quality analytical advice and analysis. We are therefore happy to respond to requests for factual advice and analysis. Any technical errors or omissions are those of the FAI.

Executive summary

North Ayrshire Economic Review

The purpose of this report is to provide an independent analysis of the North Ayrshire and wider Ayrshire economy.

It will be the first in a series of reports to help inform policy formation and budgetary decisions in North Ayrshire.

The UK and Scottish context

A cloud of uncertainty hangs over both the Scottish and UK economies. While recent Scottish performance has undoubtedly improved, Brexit means that all forecasts at the moment are hugely uncertain.

At the time of writing, this uncertainty seems likely to continue into 2019 and beyond.

But it also faces long-term challenges, particularly around productivity and demographics.

North Ayrshire – economic analysis

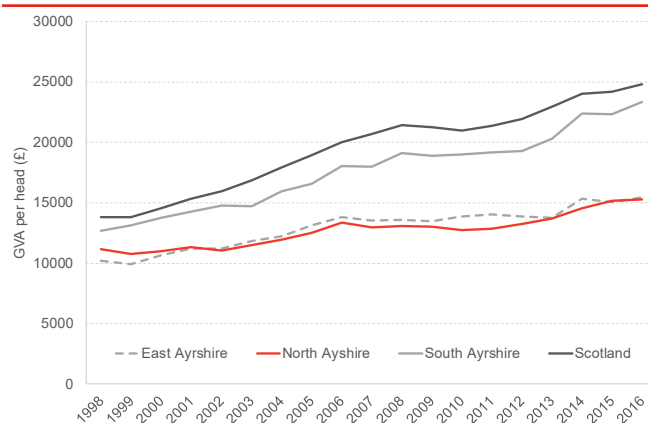
This report includes a comprehensive analysis of North Ayrshire and wider Ayrshire economy. In future reports, as well as headline indicators we will focus on topical issues and also data which aims to bring new insights.

The overall picture for the North Ayrshire economy is challenging. Many of these are shared with East Ayrshire. South Ayrshire tends to be in many respects more like the Scottish average.

Firstly, there is the demographic challenges for the area. An ageing population is an issue for the country as a whole. However, this is magnified in North Ayrshire and the wider Ayrshire region, with both the total and working age population projected to fall significantly.

The economic performance of North Ayrshire lags behind most other areas of Scotland: economic output per head is around 60% of the Scottish average. This gap has increased over the last 20 years.

Chart 1: GVA per head, Scotland & the Ayrshires 1998-2016, current prices



Source: ONS



North Ayrshire's working age population is projected to fall by **15%** between 2016 and 2041.



27% of North Ayrshire's data zones are in Scotland's 15% most deprived.



North Ayrshire's unemployment rate has more than **halved** since its post-crisis peak in 2012/13.

In part this has been driven by differences in productivity: North Ayrshire has consistently lagged Scotland over the last decade, with the gap now widening to around 10% in the most recent year.

Some of this is due to the industrial structure in the region. The key engines of growth in the Scottish economy over the last 20 years have been the information, professional and financial services sectors. These industries make up a much smaller proportion of businesses in North Ayrshire, and the wider region, than for Scotland as a whole.

The labour market has also lagged behind, with North Ayrshire having a lower employment rate and a higher unemployment rate than the Scottish average.

We also discuss social issues, such as inequality, deprivation and health. Scotland is a rich and prosperous nation, but this prosperity is not shared equally.

North Ayrshire is the 5th most deprived local authority in Scotland, and has the second highest level of child poverty.

Policy discussion

As was touched on above, Brexit overshadows much of the discussion on the economic outlook.

A small number of major employers in North Ayrshire have important relationships within the EU – e.g. location of parent company, supply chain links and, in the case of the pharmaceutical industry, the regulatory environment.

Closer to home, the upcoming Scottish Budget will set the fiscal context for the local area for the forthcoming financial year. Given the parliamentary arithmetic, it is likely that the local government settlement will be a key focus and debate.

Following the UK budget, the overall spending envelope may be healthier than in previous years.

Table 1: Labour market outcomes, Jul 2017 – Jun 2018

	Employment rate (16-64)	Unemployment rate (16+)	Economic Inactivity (16-64)
North Ayrshire	69.8%	6.4%	25.3%
East Ayrshire	70.2%	6.5%	24.8%
South Ayrshire	71.4%	4.6%	25.1%
Scotland	75.4%	4.1%	22.2%

Source: ONS



The vast majority of the new money will be diverted to the NHS – helping to fund commitments already made by the Scottish Government.

This could free up some of the Scottish budget for other areas. This could provide much needed assistance to local government which has been under pressure since 2010/11.

Finally we examine ‘regional inclusive growth’, which has been a key policy priority of policymakers in Scotland over the last couple of years.

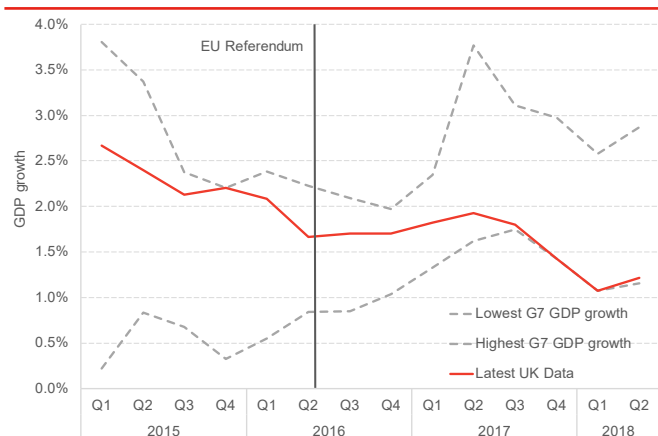
The challenge for North Ayrshire, and others like it, is what levers they have to influence some of these underlying inequalities. Many of the interventions that could make a difference sit at a national level.

Ultimately, tackling regional inequalities will only be achieved by investing significantly in Scotland’s more fragile economic communities, finding out what works (and what does not) and taking the tough decision to prioritise some areas over others.

The economic context

In this section of the report, we provide a short summary of the UK and Scottish economic context. Overall, the outlook remains highly uncertain. Whilst both the Scottish and UK economies have been showing signs of resilience, growth remains fragile.

Chart 2: Economic growth in the UK and the G7



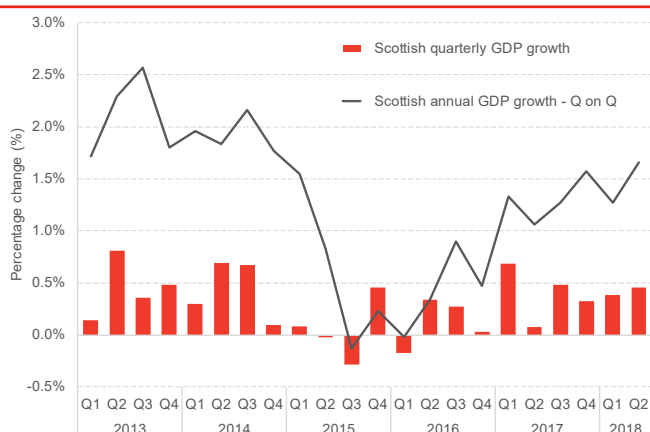
Source: ONS and OECD

Table 2: Latest growth forecasts for the UK economy

	2018	2019	2020	2021
Bank of England	1.5	1.7	1.7	1.7
OBR	1.3	1.6	1.4	1.4
NIESR	1.4	1.9	1.6	n/a
European Commission	1.3	1.2	n/a	n/a
IMF	1.4	1.5	n/a	n/a
OECD	1.4	1.3	n/a	n/a

Source: HM Treasury

Chart 3: Economic growth in Scotland



Source: Scottish Government

The UK and Scottish context

A cloud of uncertainty hangs over both the Scottish and UK economies.

The UK has gone from being the best performing economy in the G7 to the weakest – Chart 2.

Last month, the UK Government's official forecaster the OBR revised down their assessment of the growth outlook for 2018 to 1.3% from 1.5% – Table 2.

Whilst activity has picked up over the summer, it is hard not to conclude that Brexit uncertainty has weakened the economy.

Business investment has arguably taken the biggest hit. At the same time, the fall in the pound – whilst benefiting exporters – has squeezed household incomes by pushing up food and energy prices.

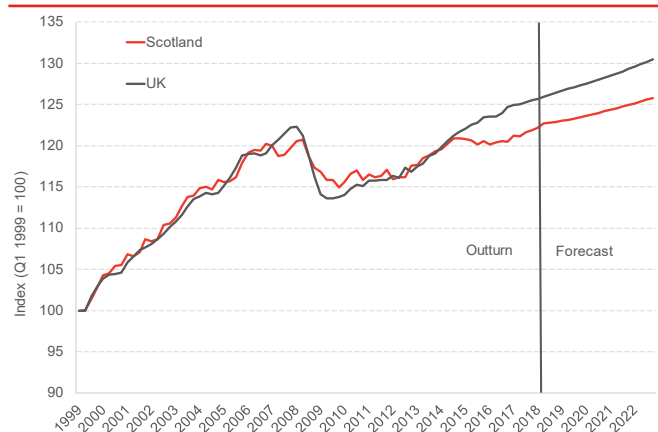
However, much of the OBR's relatively pessimistic outlook is not driven by short-term factors, or even a more fragile global policy environment. Instead, it is weak long-term productivity that is their overriding concern.

Closer to home, after a sustained period of fragile growth, the Scottish economy has been showing some signs of strengthening – Chart 3.

Growth has picked up and for the first six months of 2018, the Scottish economy has been tracking ahead of the UK.

This growth has been broad based, with growth across the production, construction and services sectors of the economy.

Chart 4: GDP per capita in Scotland and the UK, Q1 1999 = 100



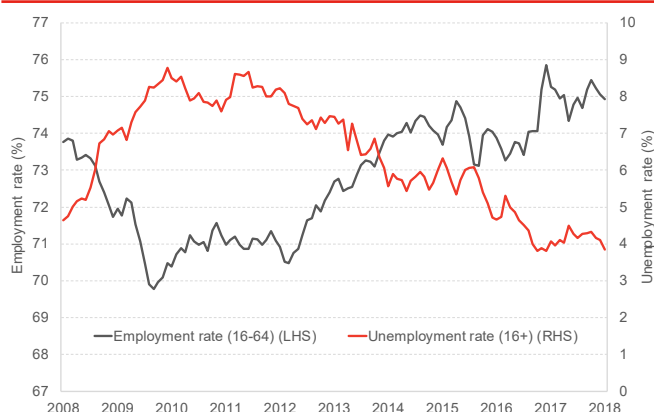
Source: Scottish Government

Some of this however, simply reflects a degree of catch-up after a period when the Scottish economy had been lagging behind – Chart 4.

The sharp fall in the oil price in late 2014/early 2015 acted to dampen Scottish growth significantly. Whilst this largely impacted on the North East of the country, the importance of this sector to Scotland meant that no part of the economy was unaffected.

Despite relatively weak growth, employment in Scotland continues to be close to a record high. Unemployment also remains low – see Chart 5. However as in the UK, the ‘price’ of this has been relatively weak productivity growth.

Chart 5: Scottish employment and unemployment



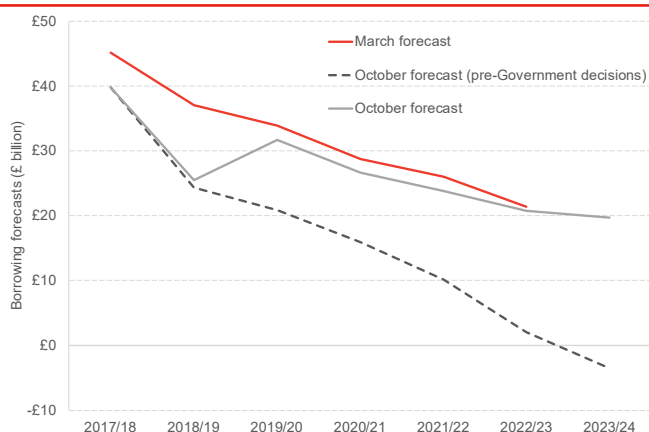
Source: ONS

Under the new fiscal framework, Scotland’s economic performance now has a direct bearing on the amount of money that the Cabinet Secretary for Finance can expect to have at his disposal each year.

Two important factors will have a bearing on how much money the Scottish Government has to spend.

Firstly, the Chancellor of the Exchequer received a windfall of higher tax receipts which has fed through to the tax forecasts. He chosen to spend all of this on higher public spending (and an income tax cut primarily for higher earners) – see Chart 6. This will generate consequential for the Scottish Government.

Chart 6: UK Borrowing



Source: Office for Budget Responsibility

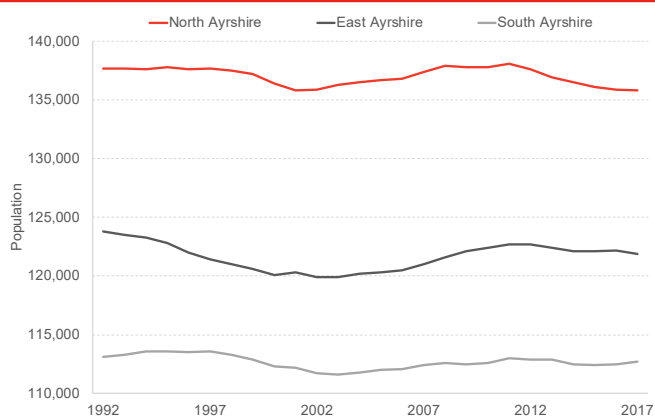
Secondly, in December the Scottish Fiscal Commission will update their forecasts for Scottish growth and tax revenues. If they continue to remain relatively pessimistic about the outlook – particularly in terms of how ‘tax-rich’ any growth in Scotland might be – this could offset some of the Chancellor’s windfall.

These forecasts will be published alongside the budget on the 12th of December.

North Ayrshire's economy

In this section, we analyse economic, demographic and social data for North Ayrshire and provide a commentary on trends. As this is our first report, we provide a summary of key statistics in the region, with future reports concentrating in more detail on specific areas.

Chart 7: Population in Ayrshire (1992-2017)



Source: ONS

Chart 8: Gender split North Ayrshire (2017)



Source: National Records of Scotland

Introduction

The population of Ayrshire comprises around 370,000 people.

Ayrshire's population has been on the decline since the early nineties, with the population of East Ayrshire falling the most amongst the three local authorities.

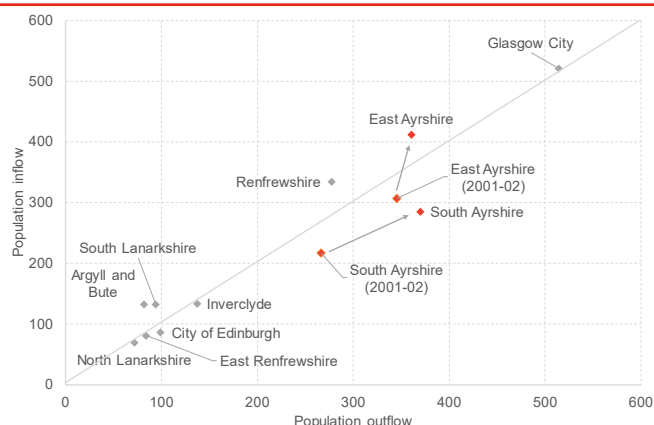
North Ayrshire, the largest local authority in the area, has seen its population fall by 1.4% over the period.

In contrast, Scotland's population has been on the rise, with growth of 6.7% since 1992. In 2017, Scotland's population reached an estimated 5.4 million (the highest on record).

Chart 9 shows the inflow and outflow of people to and from North Ayrshire.

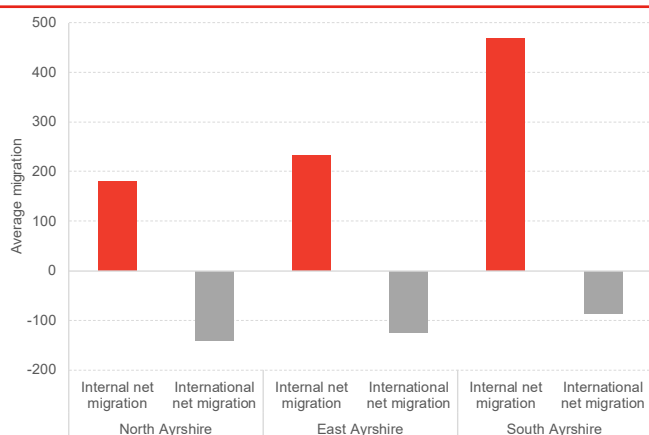
Unsurprisingly, Glasgow City is the greatest source of 'new' people into the area and also the key destination point for people leaving the local authority.

Chart 9: Inflow and outflow of people to and from North Ayrshire (2016-17)



Source: ONS

Chart 10: Average net migration (2002-2016)



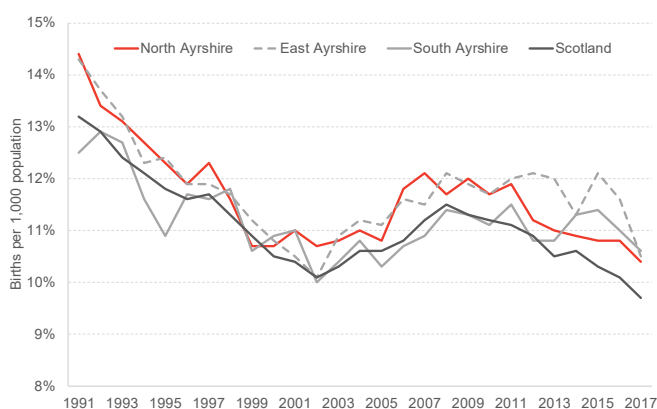
Source: National Records of Scotland

As Chart 9 highlights, this has been a consistent trend over the years.

At the turn of the century, the inflow from Glasgow to North Ayrshire was around 200 more than the outflow. In the most recent year this has fallen to be broadly in balance.

Unfortunately, the data does not allow for a break-down of the characteristics of these individuals. However, it is not hard to imagine a scenario where a significant proportion of those leaving were young people seeking work or study opportunities in the city.

Chart 11: Birth rates: Ayrshire & Scotland ('91-2017)



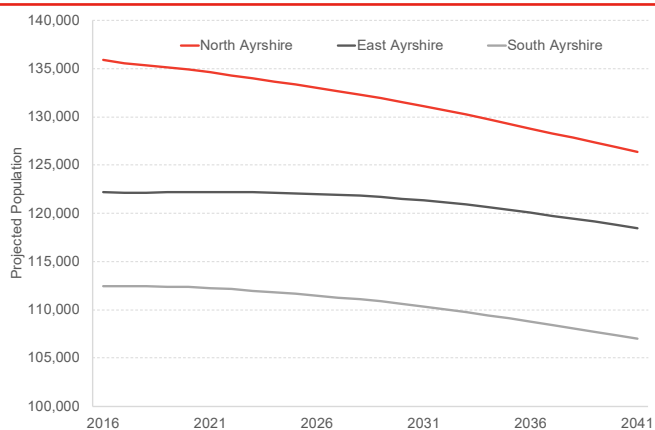
Source: National Records of Scotland

Chart 10 shows net migration flows. All of Ayrshire has negative net migration internationally. But at the same time, North Ayrshire has had the weakest positive internal migration of the Ayrshires since 2002.

Birth rates across Ayrshire and Scotland have decreased since 1991 – Chart 11. It is no surprise that the population of the area is projected to decline – Chart 12.

The greatest projected decline is in North Ayrshire, with a decline of 7% forecast between 2016 and 2041. This is one of the greatest forecast declines in Scotland.

Chart 12: Projected total population (2016-2041)



Source: National Records of Scotland

A slightly smaller decrease is expected in both East and South Ayrshire (3% and 5% respectively). In contrast, Scotland's population is projected to rise 5% to 5.7 million by 2041. Digging underneath these projections reveals a challenging picture – Table 3.

The number of young people and crucially, those of working age is on track to fall in North Ayrshire.

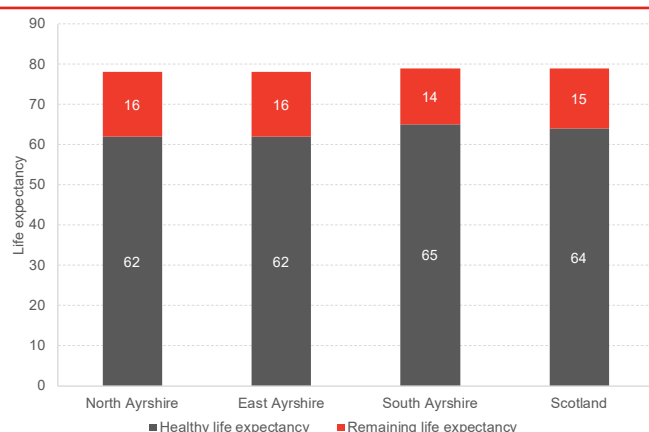
This is also the case in East and South Ayrshire. While those of pensionable age are projected to rise by 17%, this is not as large as the Scottish increase.

Table 3: Population in Ayrshire, 2016-2041

	Children	Working Age	Pensionable Age
North Ayrshire	-11%	-15%	17%
East Ayrshire	-8%	-9%	18%
South Ayrshire	-12%	-13%	19%
Scotland	-2%	1%	25%

Source: National Records of Scotland

Chart 13: Healthy life expectancy and life expectancy of those born between 2009-2013



Source: Scottish Public Health Statistics

Box 1: Local economic data

Care is needed when examining local statistics – particularly on the economy and labour market.

Much of the data is collected through surveys at a national level. Whilst it is possible to obtain a ‘local’ view, the sample sizes for local areas are generally small. This means that there is greater margin for error.

On other occasions, the statistics might rely on modelling. For example, where there is no survey information on, say business R&D spending, an apportionment may be made based upon a local authority’s share of national employment in particular R&D intensive sectors.

This means that care is required when looking at local comparisons, particularly within sub-groups (e.g. youth employment etc.). For example, the confidence interval around North Ayrshire’s youth employment rate is currently 10% points, as shown in Chart 14.

At the same time, and like Scotland as a whole, the numbers in pensionable age will increase significantly (slightly less in Ayrshire as oppose to the Scottish trend).

Such developments will have a number of implications.

Firstly, it will have an economic impact, both in terms of levels of activity, incomes and the ability of firms to fill vacancies.

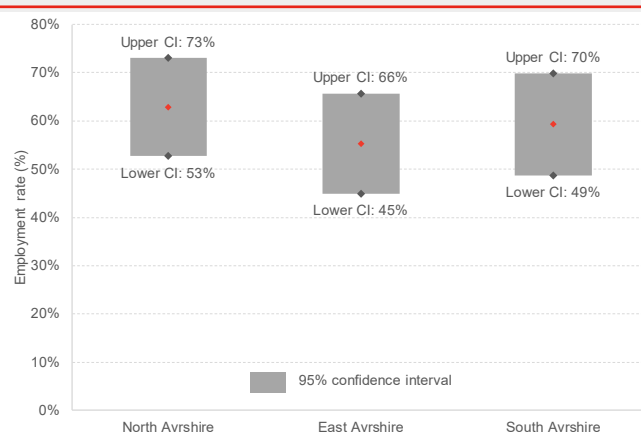
Secondly, it will put pressure on public services – most notably local health and social care services. Although the pensionable age is rising with life expectancy, healthy life expectancy can look quite different.

Chart 13 highlights the disparity between *healthy* life expectancy and life expectancy. North and East Ayrshire have a lower healthy life expectancy than the Scottish average at 62 years of age.

Healthy life expectancy is the years people can expect to live in good health.

In our view, it is more important to focus upon trends rather than individual point-estimates.

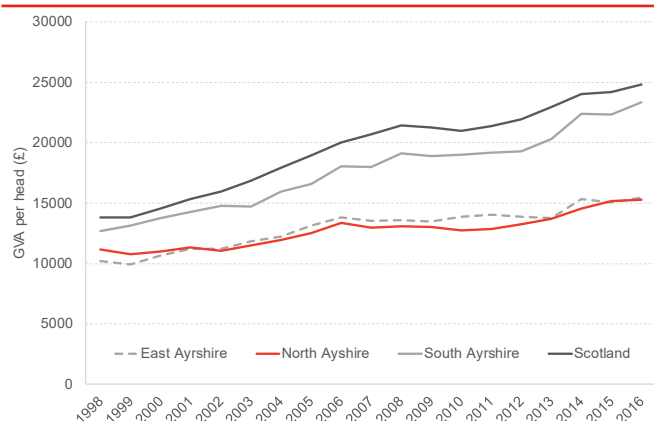
Chart 14: Confidence intervals for employment rate of those aged 16-24 in 2018



Source: ONS

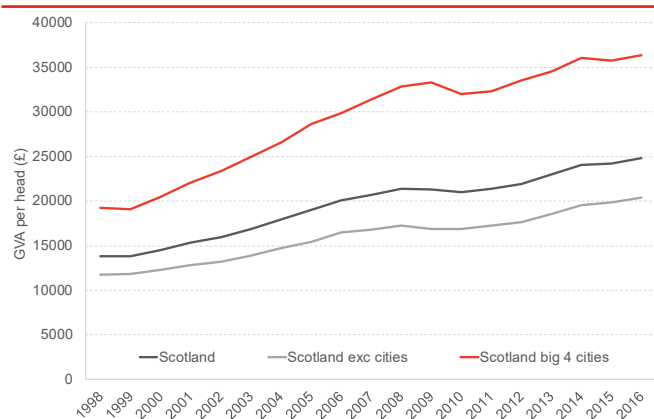
A 95% confidence interval is the range within which you are 95% confident the true value lies. In general, 95% is the level used in statistics.

Chart 15: GVA per head, Scotland & the Ayrshires 1998-2016, current prices



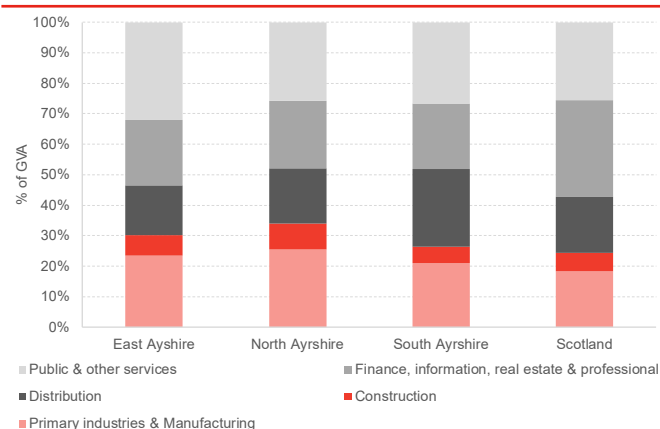
Source: ONS

Chart 16: GVA per head, Scotland and the big 4 cities, 1998-2016, current prices



Source: ONS, FAI calculations

Chart 17: Economic Structure, Scotland & the Ayrshires



Source: ONS, FAI calculations

Economic growth

As can be seen from Chart 15, the GVA of both North and East Ayrshire has been consistently well below the Scottish average. In the latest year, GVA per head in both East and North Ayrshire was around £15,000, compared to a Scottish average of around £25,000. South Ayrshire fares slightly better, and is closer to the Scottish average.

This is driven, in part, by the pattern of GVA generated in Scotland.

GVA is a workplace-based measure, which means that cities tend to have higher GVA per head, as their economic growth is buoyed up by workers commuting in to their area. It is also supported by the concentration of business and public sector activity in the cities.

This point is illustrated in Chart 16, which shows how much higher GVA per head has been in the 4 big Scottish cities compared to the rest of Scotland.

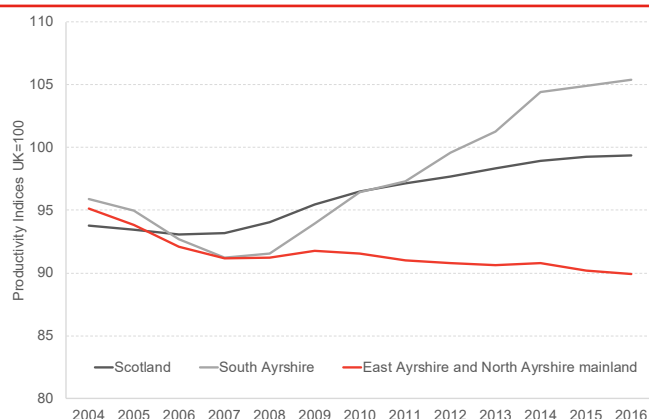
Note however, that the gap is widening.

The structure of the economies of the Ayrshires are different to that of Scotland. Chart 17 shows that in general the Ayrshires have a smaller share of Finance, Information and Professional sectors, and a larger share of other Primary industries & Manufacturing. For example, Finance makes up only 2% of the Ayrshire economy, compared to 6% at a Scotland level.

The sectors of Information, Finance and Professional Services have grown significantly in Scotland in the last 20 years. The disparity in representation of these sectors is one of the drivers of differential growth.

Overall, the service sector has grown by 40% in recent years, compared to 3% for production industries over the past 20 years.

Chart 18: Productivity indices, Scotland, South Ayrshire & East & North Ayrshire mainland, 2016



Source: Scottish Government

This industrial structure has consequences for the productivity of the area.

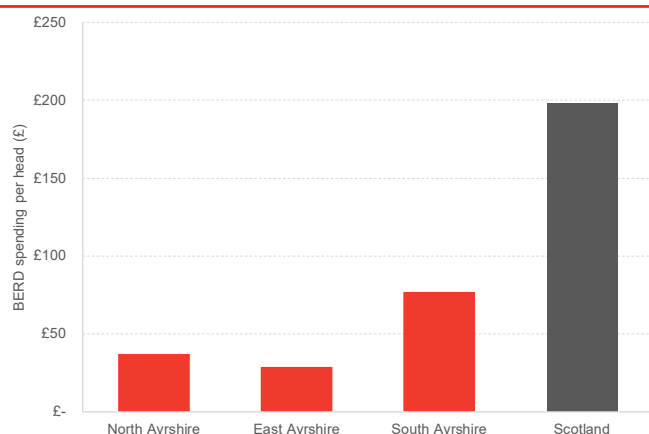
These statistics are only produced for what is known as “NUTS 3” areas, which is a level of EU geography which combines East Ayrshire with the mainland part of North Ayrshire.

Box 2: What are the NUTS areas?

NUTS, or Nomenclature of Territorial Units for statistics, is a hierarchical classification of administrative areas used across the EU for statistical purposes.

Scotland is a NUTS 1 area, for example.

Chart 19: Business Research & Development Spending (BERD) per head, 2016



Source: Scottish Government

Chart 18 shows that the gap between the average Scottish productivity and that of East and North Ayrshire has been growing, particularly since the financial crisis.

South Ayrshire has seen significant growth in productivity relative to the Scottish and UK averages, although this is driven somewhat by a flattening off in hours worked in South Ayrshire, as well as a healthy GVA growth profile.

Two key drivers of productivity are innovation and investment.

Business Research and Development (BERD) spending is much lower per head in all the Ayrshires, but particularly low are East and North Ayrshire, with less than a quarter of the Scottish average level of spend.

Table 4: Labour market outcomes, Jul 2017 – Jun 2018

	Employment rate (16-64)	Unemployment rate (16+)	Economic Inactivity (16-64)
North Ayrshire	69.8%	6.4%	25.3%
East Ayrshire	70.2%	6.5%	24.8%
South Ayrshire	71.4%	4.6%	25.1%
Scotland	75.4%	4.1%	22.2%

Source: ONS

Chart 20: Unemployment rate 16+ (Jul 2005-Jun 2018)

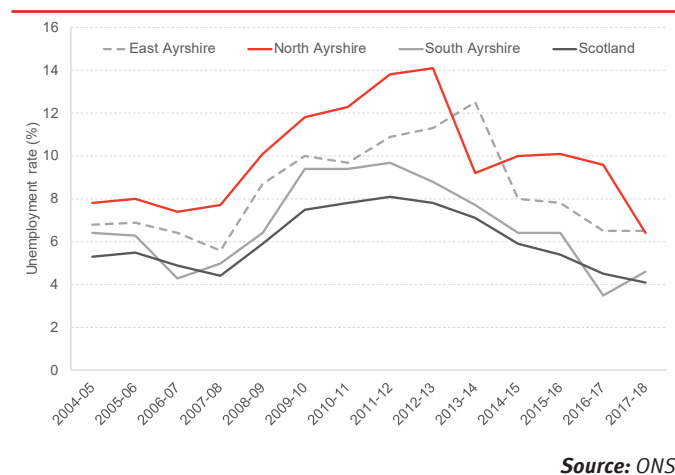
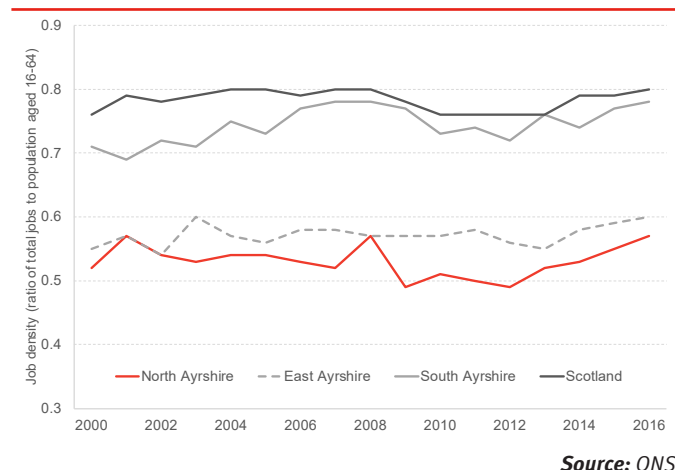


Chart 21: Job density, jobs as a % of 16-64 population, (2000-2016)



Labour Market

Similar to the measures of economic output discussed above, North and East Ayrshire have weaker labour market outcomes compared to Scotland and South Ayrshire.

As discussed in Box 1, we need to be careful when using the local authority employment and unemployment data due to large confidence intervals.

North Ayrshire has lower employment rate and higher unemployment rate than the Scottish average.

North Ayrshire's unemployment rate of 6.4% in 2017/18, is substantially lower than its post-financial crisis peak of 14% in 2012/13.

That being said, whilst unemployment in Scotland has now moved below pre-crisis levels, North Ayrshire's unemployment rate remains around this level – Chart 20. This perhaps suggests a relatively weaker resilience to economic shocks.

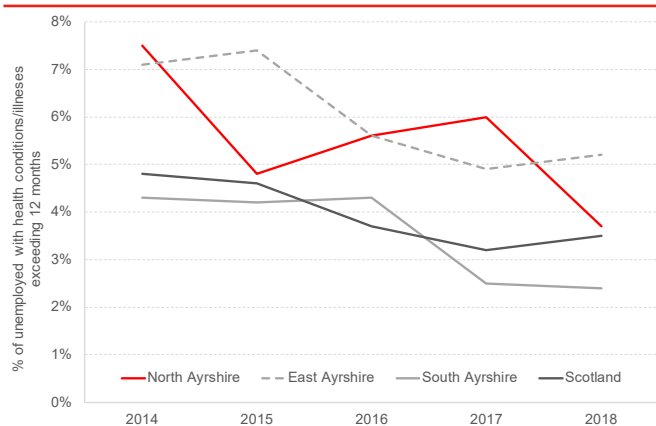
Measures of jobs density – both in-work and vacancies – give a useful measure of how 'deep' a job market is (and often therefore how resilient an economy is).

This is one indicator that North Ayrshire seems to perform less well, particularly compared to the Scottish average. Whilst this measure of activity has improved in recent times, a gap remains with the nation as a whole.

An interesting feature of the last 10 years has been the changing nature of the labour market in Scotland. Such trends are also evident in North Ayrshire.

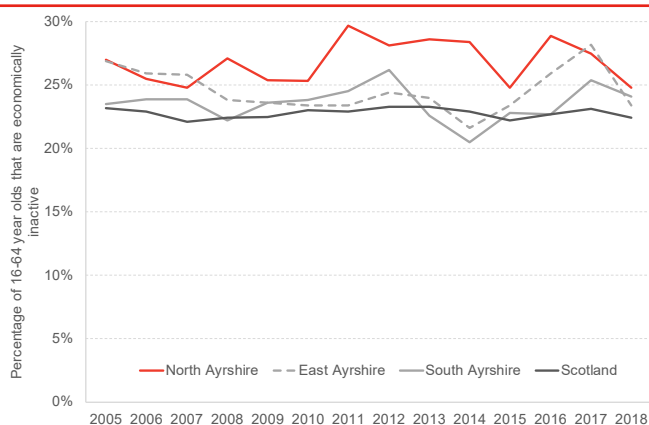
Firstly, there has been a fall in those classified as being unemployed with a long-term illnesses – Chart 22. Some of this may reflect a change in social security processes, but it may also reflect a more positive approach – at both a Scottish and local level – to supporting people back into work.

Chart 22: % unemployed with health conditions / illnesses lasting > 12 months (2014-2018)



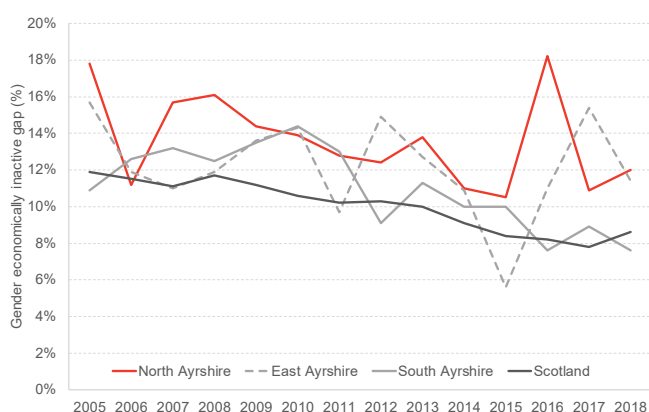
Source: ONS

Chart 23: % 16-64 economical inactivity (2004-2018)



Source: ONS

Chart 24: Inactivity gender gap (2005-2017)



Source: ONS

Secondly, one key – often overlooked – issue is economic inactivity which has moved around a lot over the last 10 years.

This includes people who are neither in work or seeking work. This can of course include students and those with caring responsibilities. It may also include people who have become ‘discouraged’ from the labour market or are unable to work for health reasons. Note it excludes those of retirement age.

The percentage of North Ayrshire’s population economically inactive is consistently above the rate for Scotland – although it has declined in recent times. Chart 23. We should remember though the limitations of these data, as small sample sizes mean it is difficult to be sure about differences between or within local authorities.

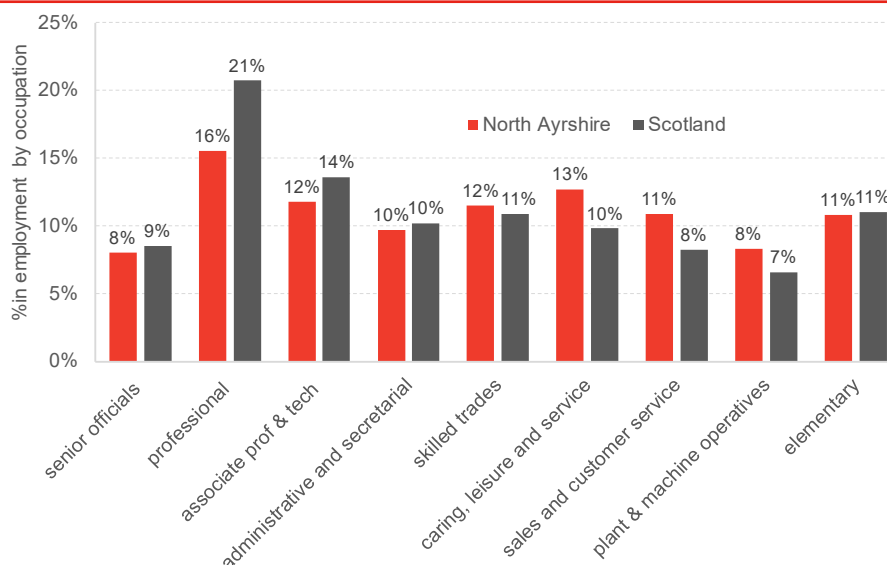
Economic inactivity tends to be higher for females than males – see Chart 24. This is not unusual as it often reflects caring responsibilities within a family. The gap is however, higher in North Ayrshire than in Scotland as a whole.

Whilst the series is volatile, there is some evidence of a decline in the gender gap – at least over the longer term (falling from 18% in 2005, to 12% in 2018).

Thirdly, like other parts of Scotland, North Ayrshire has witnessed an increase in the proportion of people employed in professional occupations and a decline in skilled trades.

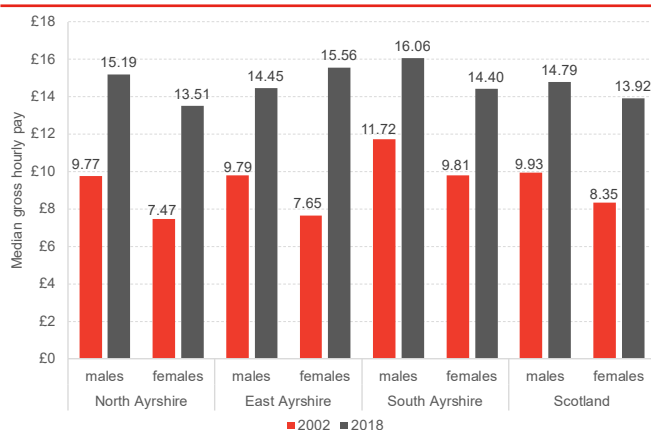
Overall, the greatest change in occupations has been activities within ‘caring, leisure and services’, which increased from around 9% in 2005, to nearly 13% in 2017.

Chart 25: Employment of those aged 16+ by occupation in North Ayrshire & Scotland (Jan – Dec 2017)



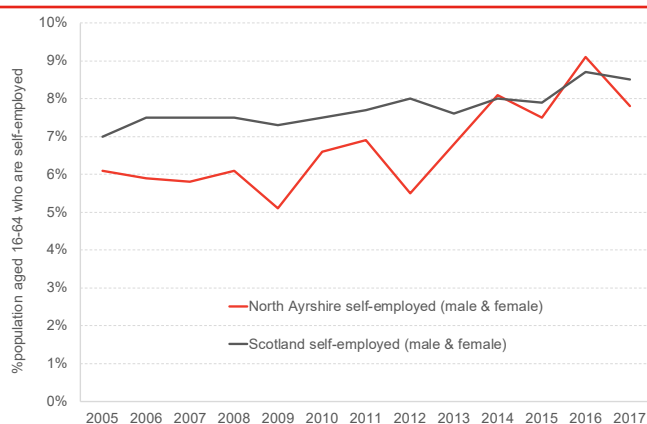
Source: ONS

Chart 26: Full and part-time employment in North Ayrshire and Scotland by gender (2005-2017)



Source: ONS

Chart 27: % of population in North Ayrshire and Scotland aged 16-64 self-employed (2005-2017)



Source: ONS

With an ageing population, and a significant national shift toward increased childcare support, this is likely to be a continuing growth area going forward.

There are relatively more people in Scotland working in senior, professional, associate, and administrative roles than in North Ayrshire. More work in skilled trades in North Ayrshire – Chart 25.

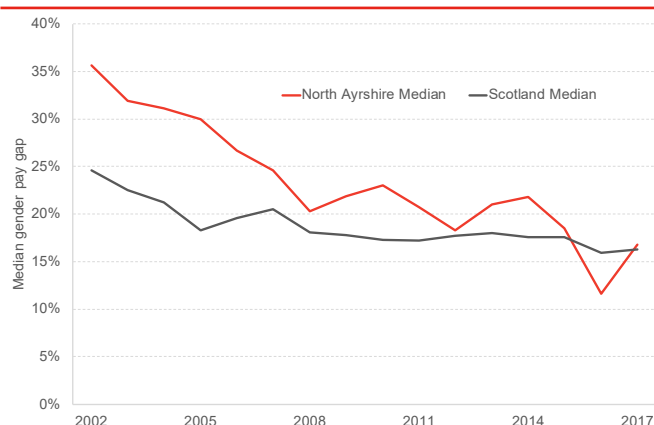
Finally, a key trend across the UK since the financial crisis, has been a rise in part-time work and self-employment. Some of this reflects pressure on wages forcing people to take 2nd jobs and/or for a household to have more than one earner.

But it also appears to reflect a structural change in the make-up of our economy, with more flexible ways of working.

Most of the increase in part-time work has come from males.

The share of male employment that is full-time has decreased in North Ayrshire, with the part-time share increasing from 9% to 15% – Chart 26.

Chart 28: Gender pay gap for those living in the area (2002-2017)



Source: ONS

The figure for North Ayrshire is 4.3% higher than the Scottish average.

Some studies – particularly in the US – suggest that such trends might reflect a worrying trend of reduced opportunities for lower skilled men (with significant spill-over impacts on well-being, health and family stability).

The data from North Ayrshire suggests a similar trend to Scotland, with falling employees being offset by a rise in self-employment.

Overall however, self-employment remains very much in the minority.

In recent times, there has been considerable debate about the gender pay gap in the UK.

Here we define it as the difference between men and women's hourly earnings as a % of male earnings.

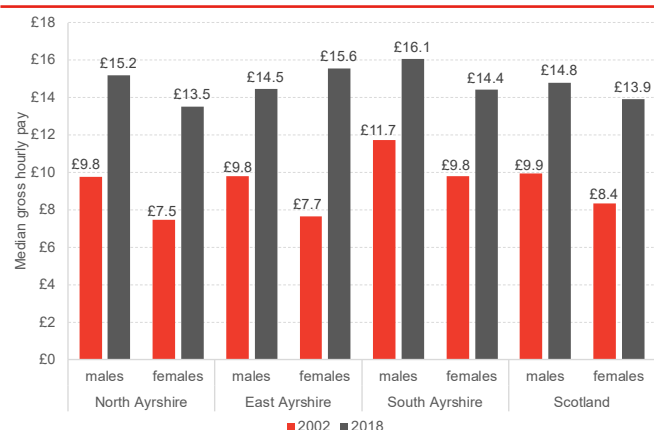
It remains a persistent feature of our labour market, despite recent progress.

Chart 29 shows that – on average – full-time males in North Ayrshire earned 31% more an hour more than females in 2002. In 2018, this had reduced to 12%. The gap in Scotland was 19% in 2002, and 6% in 2018.

Finally, it is interesting to look at the skills base of the population.

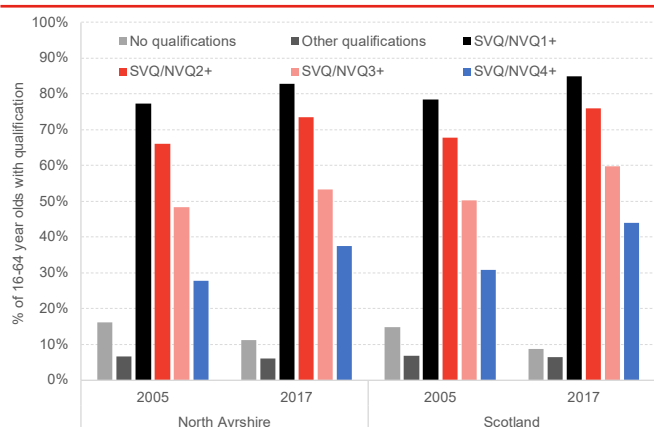
Over the last 12 years, the qualification mix of the population in North Ayrshire has risen, with fewer individuals with 'no qualifications' and more with higher qualifications. Whilst a gap still remains with Scotland as a whole, this suggests an improving picture – Chart 30.

Chart 29: Median gross hourly pay for full-time employees by gender and area (2002-2018)



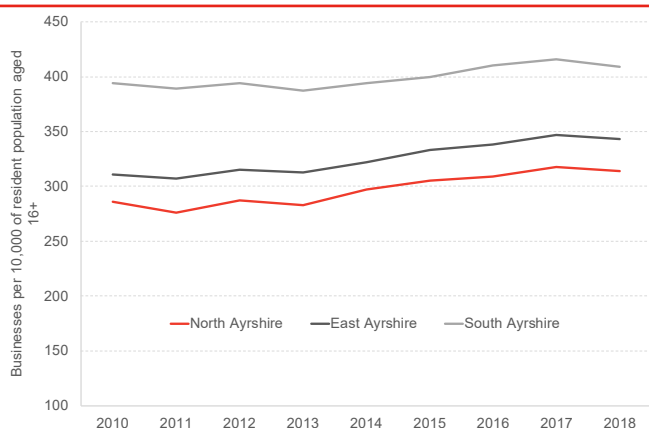
Source: ONS

Chart 30: Highest qualification held by working age (16-64) population (2005-2017)



Source: ONS

Chart 31: Number of registered enterprises per 10,000 resident adults



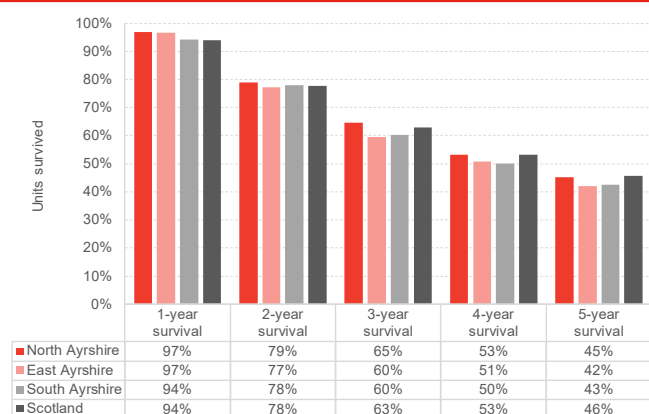
Source: Scottish Government

Table 5: Number and percent of registered enterprises by employment band, 2018

Employment band	North Ayrshire		Scotland	
	Count	%	Count	%
Micro (0 To 9)	2,900	88.7	153,515	87.9
Small (10 To 49)	310	9.5	17,745	10.2
Medium (50 To 249)	50	1.5	2,770	1.6
Large (250+)	10	0.3	700	0.4
Total	3,270	-	174,730	-

Source: ONS

Chart 32: Birth of new business enterprises in 2011 and their survival



Source: Scottish Government

Business environment

Like most of Scotland, the majority of businesses in North Ayrshire are micro-business (88.7%), consisting of 0-9 employees, and small businesses (9.5%), consisting of 10-49 employees.

Only 1.5% and 0.3% of businesses were medium or large. However, they tend to employ the most people – see Table 5.

North Ayrshire has a lower number of businesses per 10,000 people than both East and South Ayrshire (albeit the gap has been narrowing).

Overall, there are no significant differences in survival rates for new businesses in North Ayrshire relative to other parts of the country – see Chart 32.

What is more interesting however, is to delve into what sectors new businesses are experiencing growth (and which ones are not). Chart 33 shows the latest Businesses in Scotland data.

The circle diameter size shows the size of employment within a sector. For example, within the wholesale, retail and repairs sector, there are around 7,000 employees, whereas in financial and insurance, there are only approximately 300 employees¹.

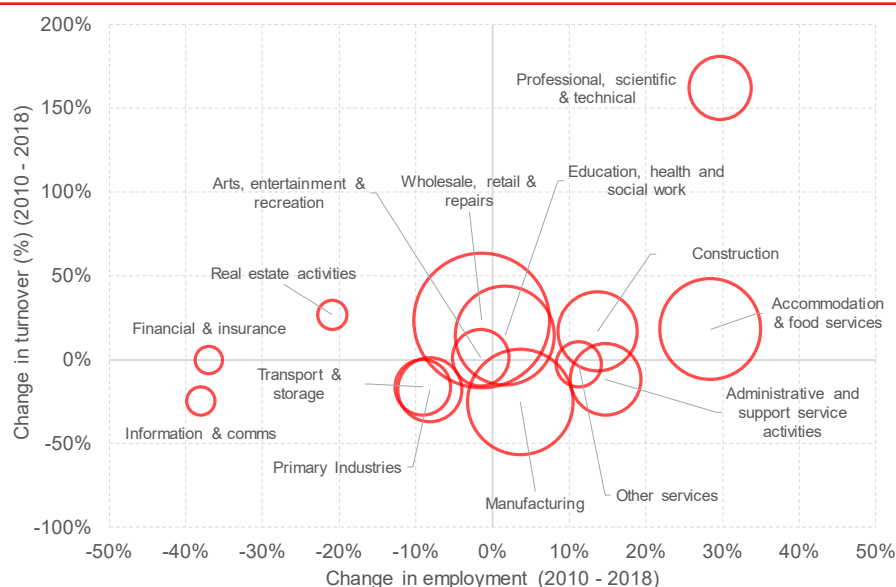
The axis show the % change in employment and turnover between 2010 and 2018.

Whilst some sectors have done well in both – e.g. professional services – for other, particularly the largest sectors in terms of employment, turnover and jobs growth has been much weaker.

The greatest employment change was within the professional, scientific and technical activities sector. Similarly, this sector had the largest growth in turnover of around 160%.

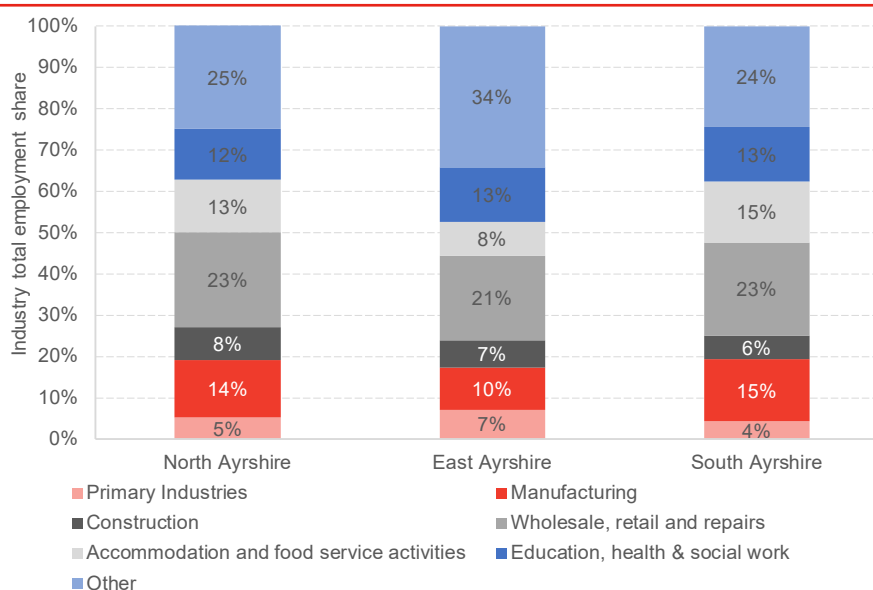
¹ There is no data for the turnover of the financial sector and so it has been set at 0%.

Chart 33: Registered enterprises in North Ayrshire and total Scottish employment & turnover growth



Source: Scottish Government

Chart 34: Employment share of industries in Ayrshire (2018)



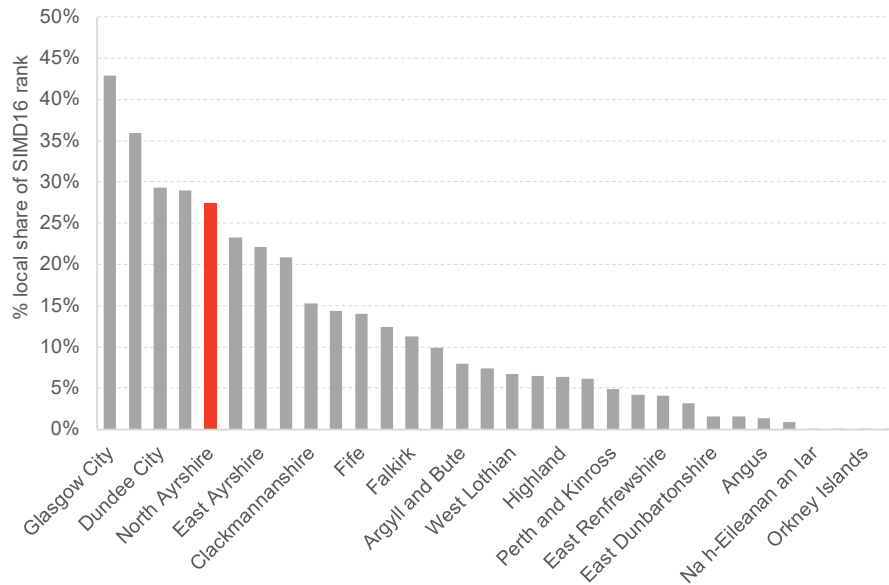
Source: Scottish Government

The information and communications sector experienced the greatest fall in employment of 40% and similarly, one of the largest declines in turnover; matching the manufacturing sector.

Whilst some sectors have seen both employment and turnover growth, some sectors – particularly the largest sectors in terms of employment – turnover and jobs growth has been much weaker.

The industries with the greatest share of employment within the Ayrshires are shown in chart 34. The wholesale industry has the greatest share of employment across Ayrshire. This industry experienced a small decrease in employment since 2010 however, a positive change of around 24% in turnover.

Chart 35: Local share of Scottish Index of Multiple Deprivation 2016 rank: 15% most deprived



Source: Scottish Government

Box 3: What are the SIMD domains?

- INCOME – Including in receipt of benefits etc.
- HEALTH – Hospital stays related to alcohol misuse, mortality ratio, etc.
- ACCESS – Time take to GP, schools, post office, etc.
- EMPLOYMENT – Employment deprived and certain benefits
- EDUCATION – Pupil attendance, working age population without qualification etc
- CRIME – Recorded crimes
- HOUSING – Data on over-crowded households and those without central heating.

Inequality and poverty

For a rich and prosperous nation, Scotland has relatively high levels of inequality.

Although less stark than other parts of the UK, the gap between those with access to economic opportunities and those without is significant.

Increasingly policymakers are recognising that tackling inequality is not just an important outcome in itself, but that it can be an important driver of sustainable economic growth – i.e. ‘inclusive growth’.

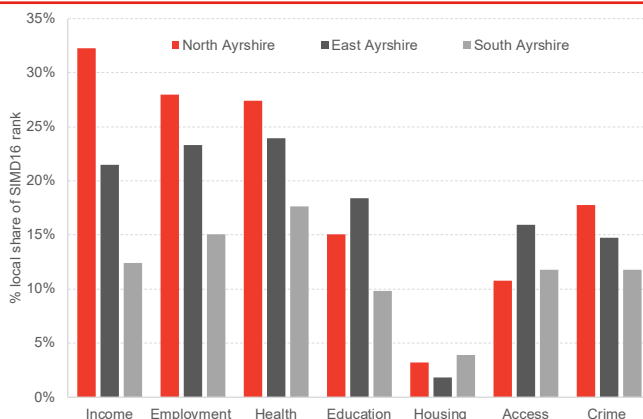
The Scottish Index of Multiple Deprivation (SIMD) ranks 6,976 Scottish data zones from the most deprived to least deprived areas using 38 indicators, condensed into 7 domains (see box 1).

The local share is the percentage of data zones within a local authority which fall into a deprived rank (i.e. 5%, 10%, 15% or 20% most deprived datazones in Scotland). 15% is taken as the benchmark.

North Ayrshire is the 5th most deprived local authority in Scotland, ranking as high as 3rd weakest in the income domain.

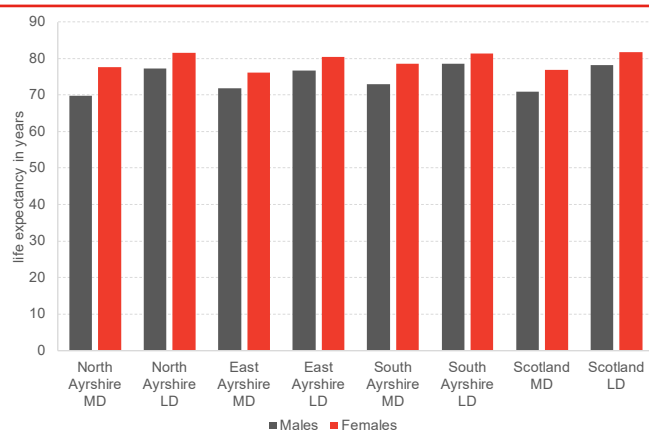
In other words, North Ayrshire had the 5th largest proportion of data zones within the 15%

Chart 36: Number of registered enterprises per 10,000 resident adults



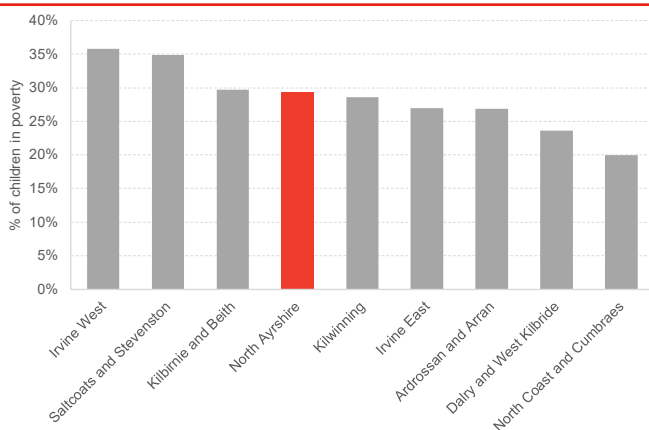
Source: Scottish Government

Chart 37: Life expectancy of 15% most deprived & 85% least deprived data zones (2011-2015)



Source: Scottish Government

Chart 38: % of children in poverty (after housing costs) in North Ayrshire wards (2017)



Source: End Child Poverty

most deprived parts of Scotland – after Glasgow, Inverclyde, Dundee and West Dunbartonshire.

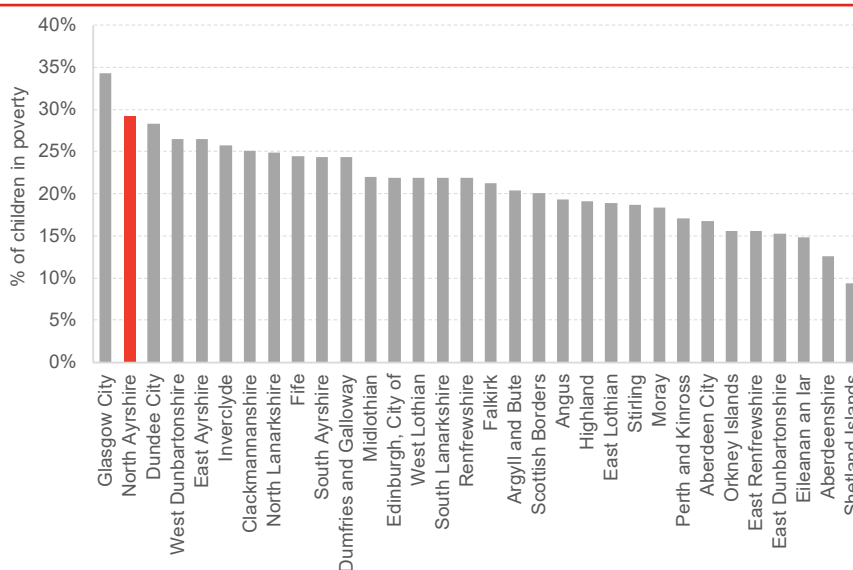
27% of North Ayrshire's data zones fall within the 15% most deprived areas across all domains – a 1% point increase from the previous SIMD rank in 2012. 'Income' is the most challenging factor – with 32% of local data zones within the 15% most deprived parts of Scotland – an increase from 29% in 2012.

Life expectancy for those living in the 15% most deprived data zones is 70 years for males and 78 for females; lower than the national average. Males living in least deprived parts of North Ayrshire live 8 years (4 years for females) longer than those in the most deprived areas.

In 2017, North Ayrshire had the 2nd largest percentage of children living in poverty out of Scotland's local authorities – with 29% of children were in a household classified as being in poverty – see Chart 38. Rates are higher in certain parts of the local authority area² – see Chart 39.

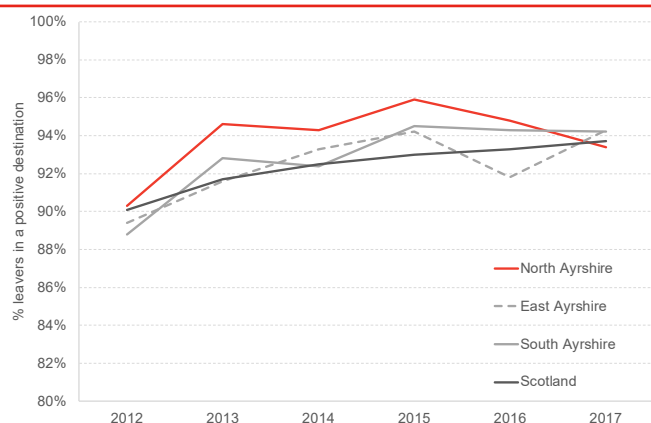
² End Child Poverty uses ward boundaries as of 2013 however, in 2017, these ward boundaries changed.

Chart 39: Percentage of children in poverty (after housing costs) in 2017



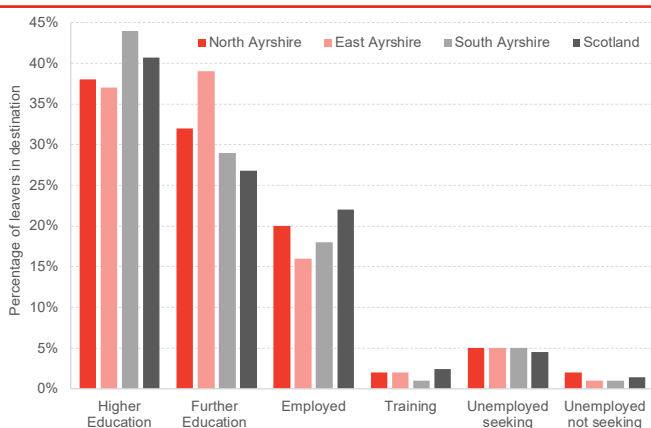
Source: End Child Poverty

Chart 40: % of senior school leavers in positive destination by (2011/12-2016/17)



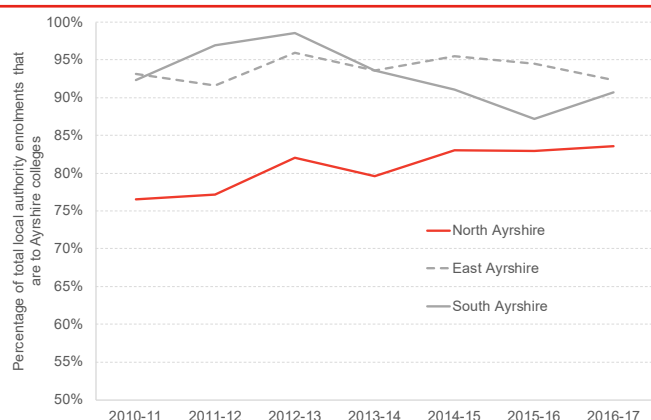
Source: Scottish Government

Chart 41: Initial destination of senior phase school leavers by local authority (2016/2017)



Source: Scottish Government

Chart 42: % of total local authority college enrolments to Ayrshire College(s) (2010-2017)



Source: Scottish Funding Council

Young people

Supporting young people into work and study is crucial. Research shows that a negative experience whilst young, can have long-term scarring effects.

Between 2011/12 to 2015/16, North Ayrshire had a greater proportion of school leavers in positive destinations than the rest of Ayrshire and Scotland.

Box 4: What are positive destinations?

Positive destinations include: higher education, further education, training, voluntary work, employment and activity agreements.

In 2016/2017, the figures showed some slippage, although the changes are unlikely to be statistically significant.

North Ayrshire had 38% of school leavers going to higher education (slightly less than the national average) in 2016/17.

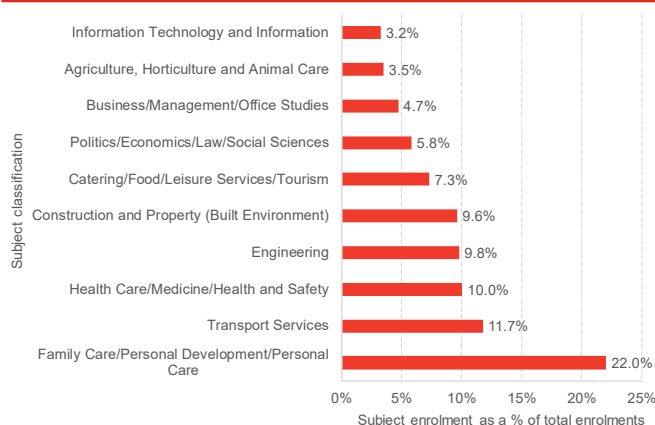
Of course, this is somewhat of a double-edged sword as without a University within the local authority boundary, it does mean that young people are leaving the area for study opportunities.

North Ayrshire has the highest level of employment of school leavers among the Ayrshires (20%); however, this is 2% less than the national level.

All of the Ayrshires have 5% of their leavers declared as unemployed but seeking work (1% greater than the national level) but North Ayrshire has double the % of leavers unemployed but not seeking employment.

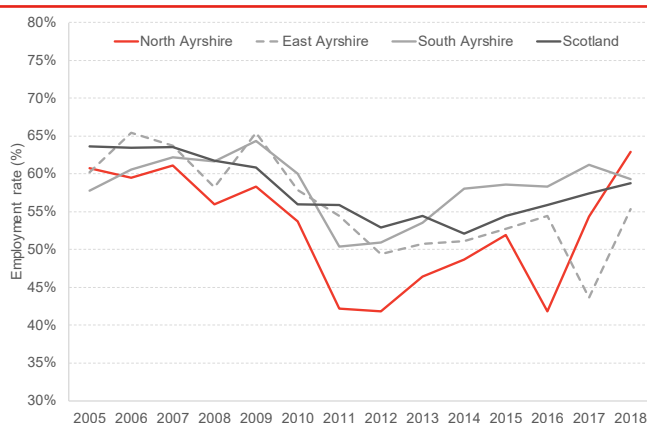
In August 2013, Ayrshire College was established through a merger of the Kilmarnock, Ayr and James Watt Colleges. 84% of college enrolments in 2016/17 in North Ayrshire were to Ayrshire College – the highest enrolment rate to Ayrshire Colleges within the 7 years.

Chart 43: Subject of FE enrolment by North Ayrshire students aged under 24 (2016/17)



Source: Scottish Funding Council

Chart 44: Employment rate for those aged 16-24 (April 2004-March 2018)



Source: ONS

Chart 43 illustrates the percentage of FE enrolments by subject for the academic year 2016/17.

The most popular subject was “Family care/Personal development/Personal care and appearance”, which includes: self-development, parenting/carers, etc. The second most popular was “Health care/Medicine/Health and safety”.

This suggests that a significant number of young people enrolling at college are seeking training in the growth areas of public services around child-care and elderly care.

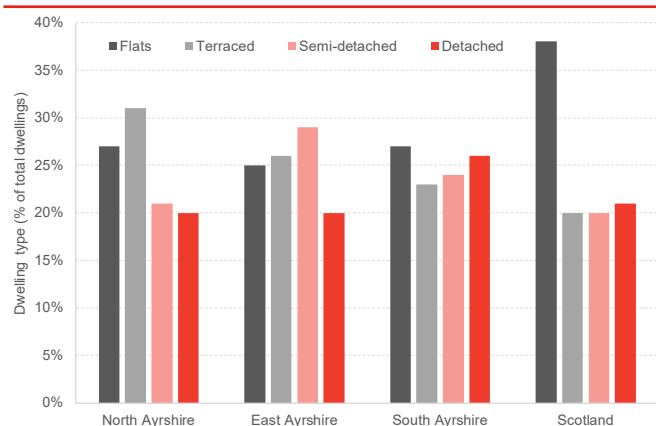
The employment rate for those aged 16-24 in North Ayrshire is 62.9%. This is the highest rate since 2004.

The current employment rate puts North Ayrshire slightly ahead of the Scottish rate, although as discussed in Box 1, care should be taken against reading too much into small variations and differences, given the large confidence intervals associated with it.

And in contrast, inactivity does remain higher.

As Chart 44 highlights, youth employment fell significantly during the financial crisis. It hit a low of 41.8% in 2011/2012 and 2015/2016. The recovery has been sustained and significant.

Chart 45: Dwelling type (2017)



Source: Scottish Government

Households

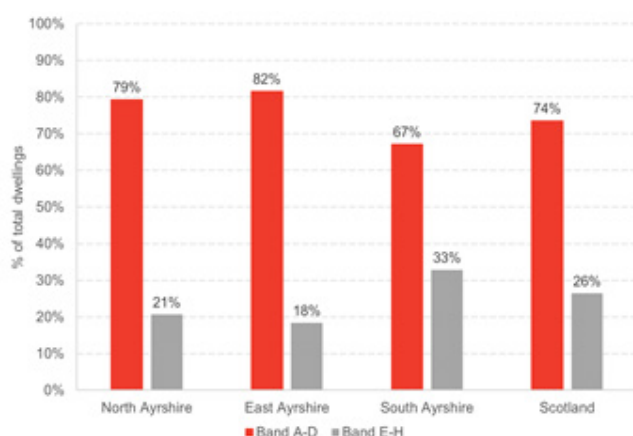
The characteristic of dwellings in Ayrshire differs to the Scottish average.

Perhaps not surprisingly, given the lack of a major city, there are relatively few flats and more terraced, semi-detached and detached properties.

North and East Ayrshire both have fewer households in the most expensive council tax bands (E-H) than the Scottish average, with only 21% paying the highest bands in North Ayrshire.

South Ayrshire has a third of households paying the top council tax bands. This is much higher than the rest of Ayrshire and Scotland as a whole.

Chart 46: % of households by council tax band

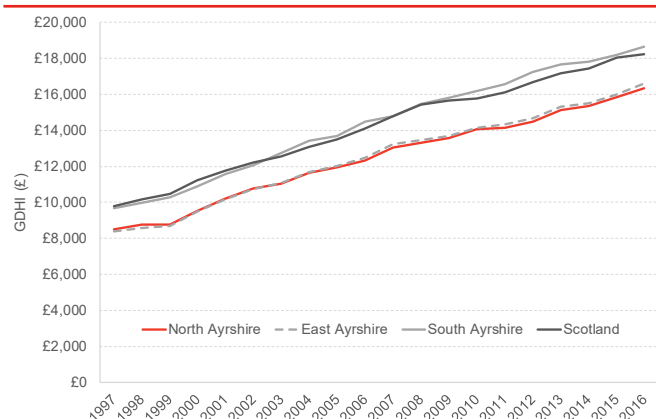


Source: Registers of Scotland

Gross Disposable Household Income (GDHI) measures the amount of money that all of the individuals in the household sector have available for spending or saving after taxes and benefits have been accounted for.

This shows a consistent gap between North & East Ayrshire and the Scottish average, around 13% lower in the latest year.

Chart 47: Gross Disposable Household Income (GDHI) Scotland & the Ayrshires, 1997-2018



Policy Discussion

The (uncertain) policy environment

In this section of each report, we will touch on relevant economic policy issues of the day and discuss how they relate to North Ayrshire and the wider Ayrshire region.

The topics we will cover will be shaped by discussions with council colleagues and we are happy to respond to suggestions. In each case, we will summarise the issue(s) and set out where policy might usefully focus.

To mark the start of this work, we provide our take on the external environment that we believe will dominate economic policy discussions in North Ayrshire over the next year (and beyond).

It is clear that we are entering an unprecedented period of economic and policy uncertainty. In such times, it is vital that policy remains flexible and responsive to change. But it is also crucial that policymakers prioritise where they can make a difference over the long-term, particularly when resources are scarce so as to avoid spreading interventions too thinly.

We touch on three issues:

1. Brexit
2. Scottish Budget
3. Regional Inclusive Growth

Brexit

The UK will leave the EU in four months' time. This will mark the most significant change to the UK economy in over 45 years.

In our view, Brexit will act as a significant headwind for the Scottish economy – see Table 6. At first glance, many may think that North Ayrshire might be relatively unaffected given that exports make up a small part of the local economy.

But this would be a mistake.

Exports to the EU are estimated to support over 130,000 jobs in Scotland (Chart 48).

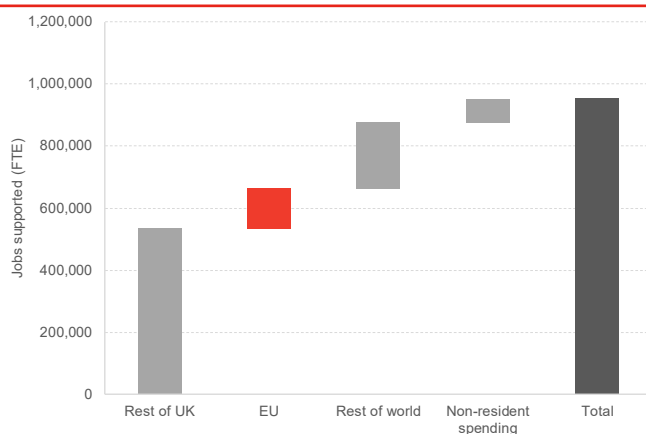
Table 6: Change in Scottish GDP relative to baseline of full EU membership by 2030

	EEA	FTA	WTO
UK (2018)*	-2.5%	-6.0%	-9.0%
Scottish Government (2018)	-2.7%	-6.1%	-8.5%
FAI (2018)	N/A	-4.9%	-7.5%

* As reported in the media

Source: Fraser of Allander Institute

Chart 48: Jobs supported by exports and non-resident spending in 2015



Source: Fraser of Allander Institute

Based upon an illustrative apportionment of such activity across Scotland's regions, we estimate that North Ayrshire makes up around 2,600 of these jobs – with almost 5,000 jobs in the nearby local authorities of South and East Ayrshire.

The impacts will vary sector-by-sector. Studies have shown that, on average, manufacturing firms are 4 times more exposed to a 'shock' from Brexit than the economy as a whole.

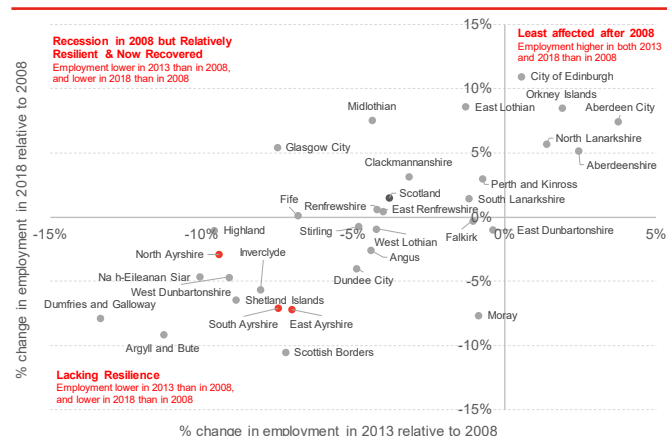
Ayrshire's farming industry, could also face particular challenges. For example, beef exports into the EU from 3rd countries (which is what the UK will be post-March 2019) face tariffs of 12.8% (plus additional fixed charges).

But it is not just exports that are important.

If Brexit does lead to a slowdown in the Scottish economy, this will cause a ripple effect from which North Ayrshire cannot expect to be immune.

As a region that has – in the past – been less resilient than others to economic shocks, it will be important to consider the appropriate (national and local) policy responses – see Chart 49 for local authority performance both during the financial crisis and recovery.

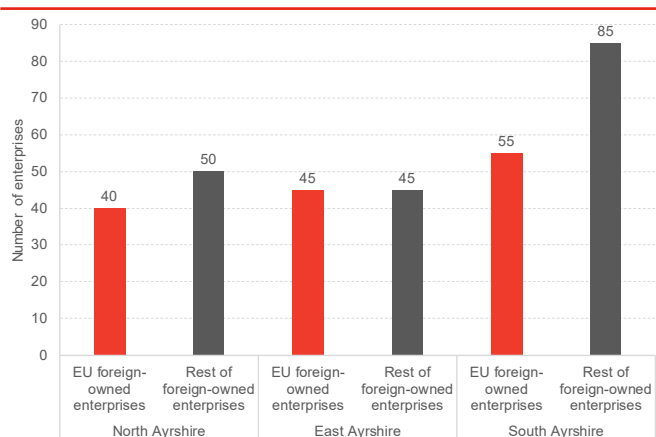
Chart 49: Employment resilience: % change in employment 2013 vs 2008 and 2018 vs 2008



Source: ONS APS

We also know that a (small) number of major employers in North Ayrshire have important relationships within the EU – e.g. location of parent company, supply chain links and, in the case of the pharmaceutical industry, the regulatory environment.

Chart 50: EU and other foreign-owned enterprises in local authorities (2018)



Source: Scottish Government

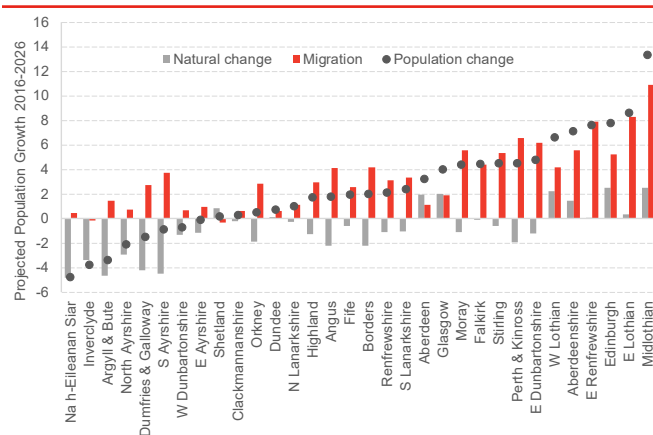
Investment is another important area. Scotland has punched above its weight in attracting international investment. In the future, it is hard to see it being anything other than more difficult for North Ayrshire to attract such investment.

Labour market issues will also be important.

As highlighted in the main report, North Ayrshire's working age population is projected to fall over the next decade, slowing economic growth and putting pressure on public services. North Ayrshire's working age population is projected to fall by 3.5%, with pensionable age and over population forecast to grow by 3.2% and population aged 75+ estimated to grow by over 30%.

Overall, there are estimated to be around 6,000, non-UK EU citizens living in Ayrshire. Fewer EU migrants may show up skills shortages in key sectors.

Chart 51: Projected population growth by local authority, 2016-2026



Source: National Records Scotland

Finally, one thing that we can be certain of is that the policy environment will look quite different post-Brexit.

We do not know yet for example, what framework will replace EU Structural Funds.

Over the years, they have made an important contribution to a range of economic and regeneration initiatives in North Ayrshire.

The UK Government has promised a new "UK Shared Prosperity Fund". The Chancellor has confirmed that funds will be protected to 2020, but beyond then there are concerns that, given Scotland's relatively high public spending per head, the amount of money allocated here may be reduced.

Box 5: The Fraser of Allander Institute Brexit Dashboard

		General Questions	Ayrshire Specific
	Exports & Imports	■ Importance of EU markets for demand ■ Opportunities for import substitution ■ What tariffs or quotas could you face ■ Customs – administrative costs & time delays	■ 7,600 jobs in Ayrshire are supported by demand from the EU ■ Of this, 2,600 jobs are in North Ayrshire ■ Manufacturing and farming particularly exposed ■ Can domestic market share be captured?
	Supply chains	■ Linkages to EU firms – ■ both upstream and downstream ■ both directly and indirectly	■ Some major employers in North Ayrshire have important relationships within the EU ■ How many firms in Ayrshire rely on imports of intermediary products from the EU?
	Labour market	■ Importance of EU workers to business operations ■ Communication with existing EU (UK) workers in the UK (EU)	■ Labour market in North, South and East Ayrshire has been less resilient than others to economic shocks ■ Projected populations in Ayrshire are set to fall over the decade to 2026. How can Ayrshire attract and retain skilled labour post-Brexit?
	Regulation	■ Potential implications for key regulations that firms operate within ■ E.g. environmental, safety standards, product	■ What will the regulatory environment look like for the pharmaceutical and farming industries?
	International investment	■ Importance of EU investment for growth ■ Implications for location decision	■ What framework will replace EU Structural Funds? ■ How could funding allocations change?
	Uncertainties	■ Contingency planning for: ■ any short-term dislocation of markets ■ and financial market uncertainty	■ How could businesses be supported should conditions deteriorate? ■ What can be done to mitigate any potential shortfall in demand from the EU?

Much of the public debate on Brexit has focussed upon the challenges.

But with change comes opportunity. Access to new markets is one.

In the North Ayrshire context, another option is to focus upon import substitution. That is, if it is equally more costly to import EU products into the UK, where might there be scope to capture more domestic market share?

How the region's transport assets could be used to help facilitate trade if existing points of entry and exit to the UK become more challenging might also present new opportunities.

So whether you agree or disagree with Brexit, it is vital that businesses and policymakers adequately prepare.

Effective preparations will ensure that the region will be able to make the best of the new economic environment. It is vital that government considers all potential implications – in terms of day-to-day activities (e.g. regulatory changes, EU employees etc.) and their readiness to support businesses should conditions take a turn for the worse.

In our discussions we encourage businesses and government to work through our FAI-Brexit dashboard – see above.

The Scottish Budget

If Brexit will set the overall economic narrative for North Ayrshire over the coming year, the Scottish Budget will largely determine the fiscal context.

The 2019-20 Draft Scottish Budget will be published on the 12th December.

The envelope that Mr Mackay will have at his disposal looks – at first glance – healthier than this time last year.

Table 7: Resource consequentialials announced at Budget 2018 (£m)

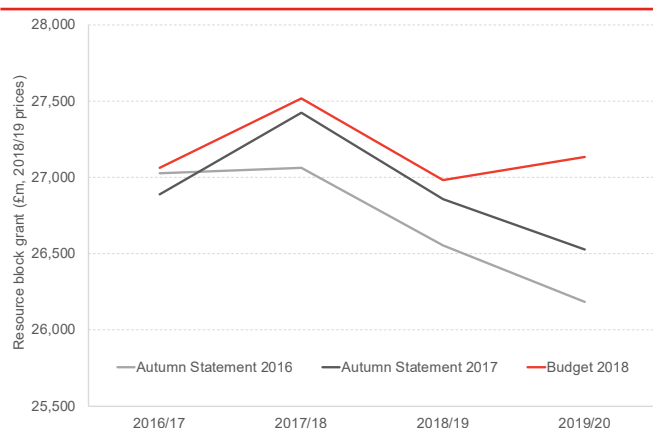
	2018/19	2019/20
Consequentialials	£123	£720

Source: HM Treasury

Following last month's significant consequentialials in the UK Budget – see Table 7, the Scottish Government's resource block grant is now expected to increase between 2018/19 and 2019/20 by around 0.6% in real terms (£637m cash). This time last year, the budget was expected to be cut.

As a result, the block grant is expected to be slightly (0.3%) higher in 2019/20 than back at the start of this parliamentary term in 2016.

Chart 52: Scotland's resource block grant, £m 2018/19 prices



Source: Fraser of Allander Institute

However, some indicators suggest that the economic outlook in Scotland has weakened recently, so this uplift could be eroded by weaker tax revenues. The Cabinet Secretary may of course choose to raise taxes once again (although he is likely to have some concerns over any widening gap between taxpayers in Scotland and rUK).

Of course, even with this uplift in 2019/20, the budget remains lower – in real-terms – than it was prior to the 'austerity' period starting in 2010.

At the same time, our population is getting older, putting every greater pressure on health and local government budgets.

So what might North Ayrshire look out for this Budget?

Whilst the overall budget is rising, by agreeing to 'pass-on' all health consequentialials, over ¾ of the new money announced in October will be diverted to the NHS – helping to fund commitments already made by the Scottish Government.

This is part of a long-term trend. The health budget is on track to see its share of resource spending rise from 41% in 2010 to almost 50% of the Scottish resource budget by 2021/22.

These consequentialials free up some of the Scottish budget for other areas. This could provide much needed assistance to areas such as local government which have been under pressure since 2010/11.

Based upon our latest assessment¹ local government in 2019/20 may expect –

- a real terms increase of 1.1% in 2019/20 – assuming all commitments in respect of childcare and early years is passed-on to local government
- a real terms cut of 1.9% excluding resources for early years (i.e. like-for-like basis).

¹ Assumes health consequentialials are 'passed on', the latest forecasts for NDRI are correct and the GRG increases in-line with the outlook for the government's budget outside of its main spending commitments.

Of course, this follows a reduction in the core local government settlement of just under 9% in real terms since 2010/11.

As ever, there is scope for variance around such numbers. For example, further funding may become available for social care, attainment and/or teachers' pay.

What will be interesting to see in the budget settlement this December is to what extent additional local government funding will include new commitments or specific funding.

The long-term outlook does not look that much brighter. The Chancellor has announced real-terms increases in department spending of around 1.2% for the next 5 years. With health soon to make up £1 of every £2 spent, and requiring significant increases to keep pace with an ageing population, most – if not all – of the Chancellor's planned increase will be eaten-up by the NHS.

The wider policy context of the budget will also be of interest.

Firstly, in the past two budgets, the government has secured the support of the Scottish Greens. Last year, Patrick Harvie indicated that future support will require reforms to local government finance. What he envisages is as yet unclear, but it may include looking once again at council tax and/or giving greater freedom to local authorities to raise new taxes and charges within their local area.

Secondly, it will be interesting to see the extent to which the trend of 'ring-fencing' remains an issue.

Thirdly, there was some money in the UK Budget for local social care delivery. If – and how – this could be passed-on will be important to watch for.

Finally, and as we touch on below the possibility for investment in Regional deals – around digital, transport and skills – offers some further opportunities for local economic development.

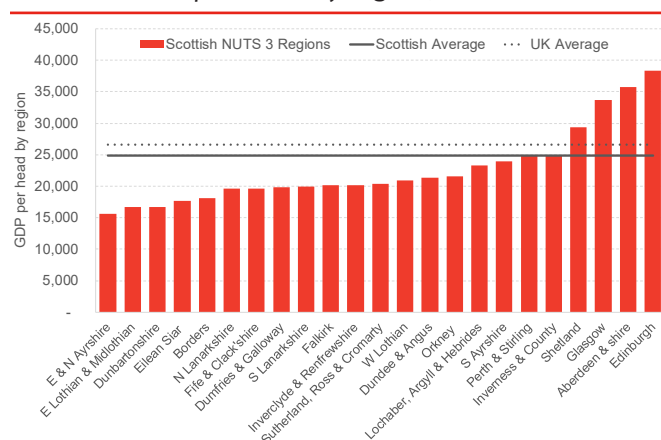
Regional inclusive growth

The final area that we highlight is the policy drive toward 'regional inclusive growth'.

As North Ayrshire knows perhaps better than any other council in Scotland, this has been a key policy priority of policymakers in Scotland over the last couple of years.

This is unlikely to change. Scotland has significant regional inequalities which have been around for some time.

Chart 53: GVA per head by region, 2016



Source: ONS

And it is hard to disagree that a country will be economically stronger if every region has the opportunity to fulfil its potential.

However, policy history is littered with well-intentioned – but ultimately ill-fated – attempts to narrow the gap in performance between regions.

Many of the challenges are deep-rooted, whilst attempts to tackle them throw-up challenging trade-offs and political risks.

A significant amount of work has gone into this within Scotland – including a new Scottish Centre for Regional Inclusive Growth.

A diagnostic has been prepared for North Ayrshire. This has no doubt been helpful in identifying policy priorities and informing the emerging discussions around new Regional Partnerships.

However in our view, it is important to put such initiatives in context and not to lose sight of the important role that central government can play.

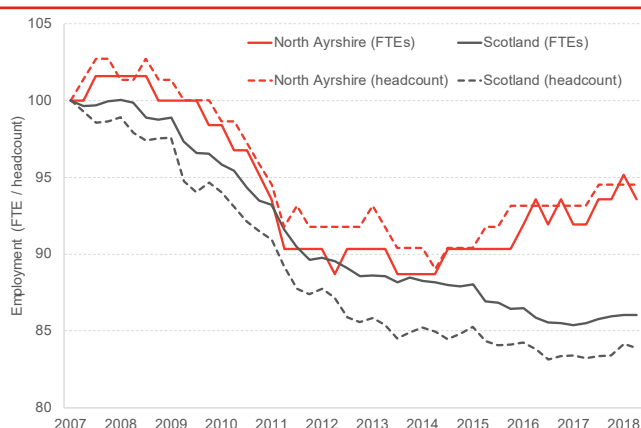
Indeed, if significant in-roads are to be made in tackling regional challenges this will require major investment and national strategic support.

Why?

Firstly, as we highlight above, many of the factor that shape North Ayrshire's economic performance cannot be changed without a fundamental shift in the underlying environment. Some can be traced to the de-industrialisation of the 1970s & 80s. Others, barriers from social deprivation and health inequalities. North Ayrshire's geography also plays a part.

Secondly, local budgets have been squeezed putting pressure on jobs and wages. Whilst many authorities – including North Ayrshire – have attempted to protect employment, there have been job losses and wages have been largely stagnant. This in turn puts pressure on more fragile regions. (Chart 54)

Chart 54: Local authority employment in North Ayrshire and Scotland since Q1 2007, Full-time equivalent (FTE) and headcount

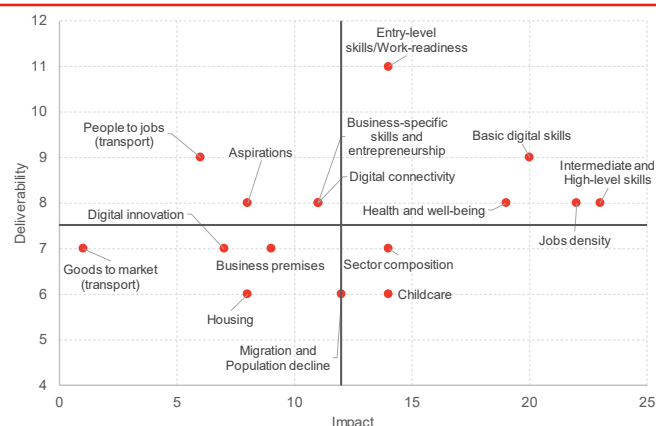


Source: The Scottish Government

Thirdly, local areas lack all the tools to turnaround economic performance (beyond limited interventions at the margin). Many of the levers that will make a difference – jobs, health and well-being, population, digital and transport connectivity – are national responsibilities.

Indeed, a quick glance at the diagnostic results from the Centre's pilot study for North Ayrshire poses the question, "what realistic levers do local policymakers have to effect change in these areas?"

Chart 55: Prioritisation matrix for North Ayrshire



Source: Scotland's Centre for Regional Inclusive Growth

In our view, given that the Scottish Government has made regional inclusive growth a priority, North Ayrshire should continue to press for recognition of the importance of national interventions to support economic development.

We have seen such challenges played out in recent months.

The decision to locate the new Medicines Manufacturing Innovation Centre (MMIC) close to Glasgow Airport might make sense from an agglomeration and connectivity perspective. But in terms of inclusive growth, it passed up an opportunity to support private sector activity and the creation of skilled jobs – as part of an Ayrshire Growth Deal – in an area of the country where such investment is needed.

The decision to locate the new Social Security Agency in Dundee and Glasgow is another example – see Box 6. On this occasion, despite North Ayrshire being identified as best for ‘inclusive growth’, it was passed over because it was felt that the local authority might struggle to attract people to work there.

Anyone can agree or disagree with such decisions, and few would argue with the importance of ensuring an effective Social Security Agency from day one. But it does highlight that even the Scottish Government itself finds it difficult to back-up its vision with investment on all occasions.

Ultimately, tackling regional inequalities will only be achieved by investing significantly in Scotland’s more fragile economic communities, finding out what works (and what does not) and taking the tough decision to prioritise some areas over others.

Box 6: Location of the new social security agency

In this box, we highlight the importance of scrutinising the analysis that underpins key investment decisions, and seeking to learn lessons for the future.

Key elements of social security was devolved as part of the Scotland Act 2016. As a result, a new agency was required – Social Security Scotland.

The selection was advised by a report which “sets out the evidence base for making a decision on where these centrally based functions will be located”.

Two phases determined where the headquarters were to be based. Phase 1 shortlisted 15 authorities which had access to a large labour force, either directly or within commuting.

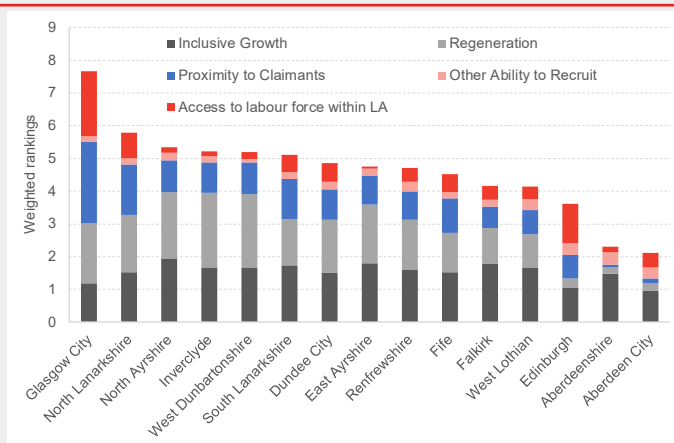
Phase 2 aimed to further narrow this list now by considering “detailed quantitative evidence against an expanded set of criteria” and led to a shortlist of 4 Local Authorities – Glasgow City, North Lanarkshire, South Lanarkshire and Dundee City. Dundee was chosen as the eventual winner for the head office, with Glasgow as a secondary hub.

Phase 2 Methodology

43 indicators were split into four groups: Ability to Recruit; Inclusive Growth; Regeneration; and Proximity to Claimants.

Out of these 43 indicators, North Ayrshire was preferential to Dundee in 34. And aggregating the weighted scores of each category places North Ayrshire third and Dundee seventh. (Chart 56)

Chart 56: Phase 2 weighted rankings, ‘Access to labour force’ separated from ‘Ability to Recruit’



Source: The Scottish Government & FAI calculations

However, local authorities which ranked below the median in ‘Ability to Recruit’ indicator were then excluded. This included North Ayrshire – even though it came out top for ‘Inclusive Growth’.

Why was North Ayrshire below the median and Dundee above for ‘Ability to Recruit’?

One subgroup – access to labour force – comprising only 7 indicators, but given a weighting of 19.9%, drove these differences. It included indicators such as population, working-age economically active population and population density – indicators in which cities will perform well. Without this subgroup,

the top three rankings go to Glasgow, North Ayrshire and Inverclyde – all within relatively close proximity to each other.

What can we conclude? This is not to argue in favour of one location over another. It is simply to say that care must be taken when using any system of ranking as the results will be driven by the implicit assumptions that underpin the analysis. On what basis are weightings made? How robust is the data? What impact will individual measures have on the final decisions? What is the justification for why Glasgow was ranked top in ‘Ability to Recruit’ while North Ayrshire was excluded, when a train from Glasgow to Irvine takes around half an hour?

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